

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Vincent Analyst: Roger Lackey Bill Number: SB 409
Related Bills: See Legislative History Telephone: 845-3627 Amended Date: 05-03-2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Community Development Financial Institution Investments Credit/Extend Repeal Date To January 1, 2007

SUMMARY

This bill would extend the sunset date of the Community Development Financial Institution Investments Credit.

SUMMARY OF AMENDMENTS

The May 3, 2001, amendment deleted the April 23, 2001, amendments, except the provision extending the sunset date of the Community Development Financial Institution Investments credit to January 1, 2007.

The April 23, 2001, amendments deleted the earlier provisions of the bill related to the State Board of Equalization and the valuing and assessing of unitary property. The amendments also extended the operative date of the credit, redefined specific terms, limited the investments eligible for the credit, and would have required the Franchise Tax Board to advise and assist in the administration of the credit.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

The author's purpose is to continue to allow taxpayers a credit for depositing money into community development financial institutions.

EFFECTIVE/OPERATIVE DATE

This bill would take effect immediately as a tax levy and would apply to taxable years beginning on or after January 1, 2001.

POSITION

Pending.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Alan Hunter for GHG

06/19/01

ANALYSIS

FEDERAL/STATE LAW

Existing federal law allows a credit equal to 5% of contributions, up to \$2 million for each corporate taxpayer, to community development corporations (CDCs), but not for deposits into a community development financial institution (CDFI). The Secretary of Housing and Urban Development may select 20 CDCs as eligible to receive contributions for purposes of this credit. Each CDC must be tax-exempt under federal law and promote employment and business opportunities for low-income individuals.

Existing state law has not conformed to the federal credit for contributions to a community development corporation.

However, **existing state law** allows a credit equal to 20% of each qualified deposit made by any taxpayer into a CDFI. A qualified deposit is defined as a deposit that does not earn interest, or an equity investment, that is equal to or greater than \$50,000 and is made for a minimum duration of 60 months. A CDFI is defined as a private financial institution located in California and certified by the California Organized Investment Network (COIN) that has community development as its primary mission and lends in urban, rural, or reservation-based communities in California. A CDFI may include a community development bank, a community development loan fund, a community development credit union, a microenterprise fund, a community development corporation-based lender, and a community development venture fund.

State law limits the aggregate amount of qualified deposits made by all taxpayers to \$10 million for each calendar year.

The credit applies for taxable years beginning on or after January 1, 1997, and before January 1, 2002.

State law requires COIN, or its successor, to certify and issue certificates regarding each CDFI, each qualified deposit, and the total amount of credit allocated. COIN also is required to provide the Franchise Tax Board (FTB) with an annual list of taxpayers, their identification numbers, the amount of their deposits, and the total amount of all qualified deposits.

In addition, **state law** requires a CDFI to apply to COIN for certification of its status and, on behalf of the taxpayer, for certification of the credit amount allocated to the taxpayer. The CDFI is also required to:

- transmit to the taxpayer and COIN certification that a qualified deposit was accepted, the amount of the deposit, and the amount of the entitled credit;
- obtain taxpayer information and provide it to COIN; and
- provide annually to the FTB and COIN a list of those taxpayers who make any early withdrawals or reductions of the qualified deposits.

THIS BILL

This bill would extend the sunset date of the CDFI credit from January 1, 2002, to January 1, 2007.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1520 (Vincent, Stats. 1997, Ch. 947), created the Community Development Financial Institution credit.

PROGRAM BACKGROUND

CDFIs have emerged over the last 20 years to provide opportunities for neglected and underdeveloped communities, businesses, and individuals who lack access to traditional sources of financing. There are more than 310 CDFIs in urban, reservation-based, and rural settings in the country. Together these CDFIs manage \$1 billion to provide financing, investments, and extensive development services. CDFIs lend to borrowers who do not satisfy the criteria for conventional lenders.

CDFIs may be banks, credit unions, or non-regulated non-profit institutions organized to gather private capital for community development lending or investing. Some CDFIs focus on a particular community while others lend to certain groups of people (minorities, women, low-income families, social service providers). All CDFIs are financial intermediaries that have a common mission of community development.

In 1994, the President signed the federal Community Development Banking and Financial Institutions Act. This Act created a fund to promote economic revitalization and community development by investing in and assisting CDFIs.

OTHER STATES' INFORMATION

The laws of *Florida, Illinois, Massachusetts, Michigan, Minnesota, New York, and Texas* were reviewed because their tax laws are similar to California's income tax laws. Except for *New York*, none of these states have a credit similar to the financial institution investment credit.

New York: Allows a credit against the insurance franchise tax for investing in certified capital companies. The maximum aggregate amount of certified capital for which the credit may be allowed is \$80 million for 2001, and \$150 million for 2002. The credit is a 100% of the investment but may only be taken in 10% increments each year for 10 years.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Tax Revenue Estimate

Based on data and assumptions discussed below, this bill would result in revenue losses under the PIT and B&CT Laws as follows.

<u>Estimated Revenue Impact of SB 409</u>		
As Amended 5/3/01 [\$ In Millions]		
2001-02	2002-03	2003-04
minor loss	-\$2	-\$2

Minor loss is less than \$500,000.

Tax Revenue Discussion

The revenue impact of this bill would be determined by the amount of qualified deposits in CDFIs located within California.

Revenue losses are primarily the result of extending the expiration date an additional five years. Maximum qualified deposits in any calendar year are still limited in the aggregate to \$10 million. By limiting qualified deposits, the maximum credits allocated in any one year cannot exceed \$2 million. Preliminary tax return data indicates taxpayers have claimed \$2 million in tax credits under the PIT and B&CT Laws for the 1999 taxable year.

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